

# *South Carolina Retirement* **SYSTEMS UPDATE**

*Fall 2008*



## **From the Director**

*Peggy G. Boykin, CPA*

**Retired Member Edition**

**Volume 29, Number 1**

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## ***SC General Assembly Passes COLA Legislation***

During its 2008 legislative session, the South Carolina General Assembly took a significant step toward protecting the purchasing power of South Carolina's retired public workforce and securing the financial stability of the state's public pension plans.

The passage of House Bill 4876, provides an automatic annual cost-of-living adjustment (COLA) of up to 2 percent each July for eligible annuity recipients of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS). If, however, the Consumer Price Index (CPI) as of the previous December 31 is less than 2 percent, the automatic COLA would equal the increase in the CPI.

The passage of this bill, which contained provisions that included the recommendations of the State Treasurer's COLA Task Force concerning retiree COLAs, is important because future ad hoc COLAs, those that are neither guaranteed nor pre-funded, are not included in a retirement plan's liabilities until the time at which they are approved. When approved, granted ad hoc COLAs must be paid from the assets of the retirement trust funds or through some other funding mechanism.

Historically, ad hoc COLAs were granted and paid from the assets of the retirement trust funds. By 2001, however, the funding level of SCRS could no longer support the continued granting of ad hoc COLAs and remain within national governmental accounting funding standards.

By guaranteeing an annual COLA and providing a stabilized funding mechanism, the cost of the COLA is recognized as a liability for accounting purposes up front. Payments for this liability are made over a period of time, much like payments made on a home mortgage. Additionally, by guaranteeing and pre-funding a COLA, eligible retirees can count on future protection of their purchasing power.

The automatic COLA provisions became effective June 17, 2008, the date the State Budget and Control Board, as trustees for the Retirement Systems, approved an increase in the Retirement Systems' assumed rate of investment return to 8 percent from 7.25 percent.

House Bill 4876 also authorized the Board to approve ad hoc COLAs in addition to the automatic COLA of up to 2 percent. This means that if the CPI increases by more than 2 percent, the Board may increase the

**Continued on Page 5**

## Help Us Find These Members with Inactive Accounts

The South Carolina Retirement Systems needs your help in locating members for whom we do not have a valid address and who may be entitled to receive a refund or a deferred annuity. If you know any of the following individuals, please urge them to contact us now at (800) 868-9002 (within SC only) or (803) 737-6800.

**Warren A. Taylor** - City of Columbia Police Department

**Rebecca Greenlee Jones** - Anderson County School District 5

**Gladys Jackson** - Spartanburg County School District 7

**James E. Gardner** - Lexington County School District 1

**Johnny Edward Slice** - Richland County Council

**Margaret S. Fesperman** - Office of Executive Policy and Programs

**Thelma Hanniford** - Florence County School District 1

**Elijah J. C. Ferrell** - Charleston County School District

**Martha L. Jones** - Charleston County School District

**Willie R. Few** - Greenville County Council

**Mazzie L. Knowles** - Lexington County School District 3

**Roosevelt Elrod, Jr.** - Greenville Commission of Public Works

## 2008 Legislative Update

The South Carolina General Assembly passed several laws during its 2008 session that relate to the state's public employee retirement plans.

The passage of House Bill 4876 resulted in the following changes:

- Eligible annuity recipients of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) will now receive an automatic annual cost-of-living adjustment (COLA) of up to 2 percent each July 1 (see Page 1).
- State statute was modified to allow members to select a 100 percent survivor benefit payment plan only if the member's designated beneficiary is the member's spouse, if multiple beneficiaries were designated, or if a sole beneficiary who is not the member's spouse is within an adjusted 10 year age difference limit determined by an Internal Revenue Code (IRC) formula. The non-spousal limits do not apply if the non-spousal beneficiary is older than the member or in the case of disability retirement or death benefits. If, based on the IRC formula, the adjusted age difference for you and a non-spousal beneficiary exceeds the IRC limits, the 100 percent survivor option payment

plan would not be available to you. You would be able to select the 50 percent survivor option payment plan, however, with no IRC restrictions.

- The age at which a member of the Judges and Solicitors Retirement System (JSRS) who is currently employed as a judge, a solicitor, or a circuit public defender may elect to receive a retirement benefit from his General Assembly Retirement System (GARS) account if he is otherwise eligible for a GARS benefit was lowered (from 65 years to 62 years).



House Bill 4339 codified the temporary provision put into the 2007 appropriations bill that amended the statutes governing the National Guard Retirement System (NGRS) to reopen the system to persons becoming members of the National Guard after June 30, 1993.

House Bill 4340 amended the statutes governing the South Carolina Deferred Compensation Commission to include as an ex officio member the chief investment officer for the South Carolina Retirement System Investment Commission. The South Carolina Deferred Compensation Commission oversees the South Carolina Deferred Compensation Program, which is a voluntary, supplemental retirement savings program available to most public employees (see Page 5).

# Medicare Eligibility and Your Health Insurance Benefits

Since retirement eligibility does not necessarily coincide with Medicare eligibility, the following are a few important points to remember:

- Generally, people age 65 or older, some disabled people under age 65, and people of all ages with end-stage renal disease (permanent kidney failure treated with dialysis or a transplant) are eligible for the Medicare health insurance program.
- Medicare has two parts: Part A (hospital insurance) which is free to most people and Part B (medical insurance) for which most people pay a monthly premium. Prescription drug coverage (Medicare Part D) is also available. The cost for Medicare Part D varies depending on coverage.
- If you are covered under a state retiree group health insurance plan, when you or one of your covered dependents become eligible for Medicare due to age or disability, you must

notify the Employee Insurance Program (EIP) at (803) 734-0678 or at (888) 260-9430 within 31



days of eligibility. The addition of other coverage, including Medicare, can affect how claims are paid.

- Unless you are actively working and/or covered under a health plan for active employees, you must enroll in both Part A and Part B of Medicare to receive full benefits. If you are

not enrolled in both parts of Medicare, you will be required to pay the portion of your healthcare costs that Part B would have paid.

- If you are actively working and/or covered under a health plan for active employees, you may defer enrollment in Medicare Part B since your health insurance as an active employee remains primary while you are actively employed.
- If you do not enroll in Medicare Part B when you are first eligible, you must wait until Medicare's General Enrollment Period (January 1 – March 31 of each year). Your Medicare premium will be 10 percent higher for each year you did not enroll in Part B after you were first eligible (except in special cases).

For more information, contact Medicare at (800) 633-4227 or (877) 486-2048 (TTY), or visit their Web site at [www.medicare.gov](http://www.medicare.gov).

## *Is Your Annuity Check a Sitting Duck? Protect Your Check!*

Don't let your annuity check be a sitting duck for thieves. You can secure your annuity check by signing up for direct deposit.

The service is provided free-of-charge by the South Carolina Retirement Systems.

Don't let your check, and possibly your identity, be stolen!

Contact the Retirement Systems today toll free at (800) 868-9002 (within SC only), or at (803) 737-6800 or [www.retirement.sc.gov](http://www.retirement.sc.gov) to enroll in direct deposit.

# Traditional Pension Plans Prove to be a Good Value

A new report finds that defined benefit (DB) pensions can deliver the same retirement income to a group of employees at 46 percent lower cost than individual defined contribution (DC) accounts.

The study, "A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans," was published by the National Institute on Retirement Security.

The analysis calculates that DB plans:

- Pool the longevity risks of large numbers of individuals – resulting in a 15 percent cost savings.
- Can perpetually maintain an optimally-balanced investment portfolio rather than the typical individual strategy of down-shifting over time to a lower risk/return asset allocation – resulting in a 5 percent cost savings.
- Achieve higher investment returns as compared to individual investors because of professional asset management and lower fees – resulting in a 26 percent cost savings.

"The analysis is a myth buster when it comes to

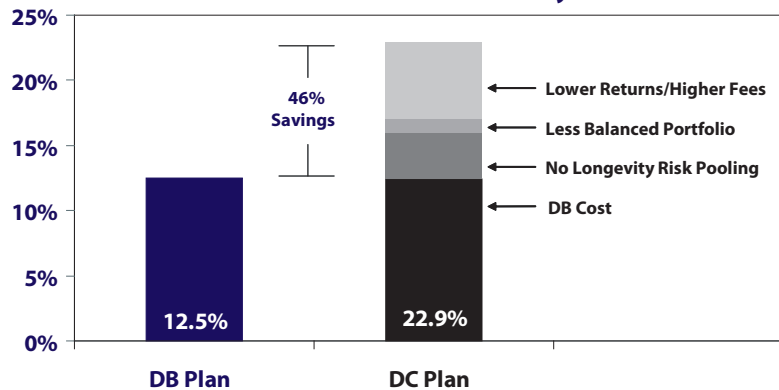
conventional wisdom about the cost of retirement plans," said Beth Almeida, report author and executive director of the National Institute on Retirement Security. Almeida added, "The analysis indicates that qualities inherent in DB plans fuel their fiscal efficiency. The report provides a new lens for policymakers, employers and employees, who are all struggling to ensure adequate retirement income with the fewest dollars possible."

The report also indicates that DC plans are essential to the retirement security

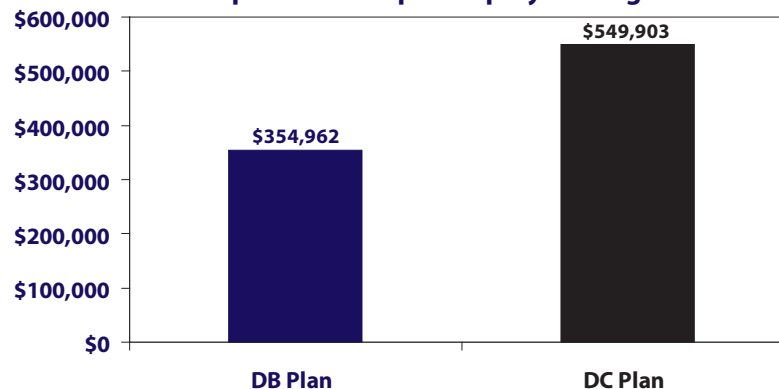
equation by enabling workers to save in a manner that reflects individual situations.

The report and more information are available at [www.nirsonline.org](http://www.nirsonline.org).

**Cost of DB and DC Plan as % of Payroll**



**Required Assets per Employee at Age 62**



**Don't forget to notify the Retirement Systems in writing if your mailing address changes. Contact Customer Services toll free at (800) 868-9002 (within SC only), or at (803) 737-6800 or [www.retirement.sc.gov](http://www.retirement.sc.gov).**

**Have any retirement related questions? Contact Customer Services toll free at (800) 868-9002 (within SC only), or at (803) 737-6800 or [www.retirement.sc.gov](http://www.retirement.sc.gov).**



## From the Director

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COLA beyond the automatic annual 2 percent up to the total percentage increase in CPI or 4 percent, whichever is less. However, the increase beyond the automatic 2 percent may only be granted when certain conditions are met.

Previously, ad hoc COLAs could be granted as long as the system(s) could support the funding of the COLA and maintain an unfunded liability amortization period of 30 years or less. Historically, COLAs have been partially funded by employer contribution rate increases, and more recently, an increase in employee contributions as well.

House Bill 4876 protects the systems from increased liabilities due to ad hoc COLAs by preventing ad hoc COLAs from being granted if a system's amortization period for the prior year's unfunded liability exceeds 25 years and by prohibiting employer contribution rate increases to support the grant of an ad hoc COLA. The provisions also require that a system's amortization period decrease by one year in the most recently concluded fiscal year and the estimated funded ratio not decrease.

I applaud the efforts by the General Assembly and the State Treasurer's COLA Task Force, and would like to express my gratitude to them for taking the necessary steps to secure the funding of the state's pension plans and to protect the purchasing power of our public retirees.

## Continue To Grow Your Nest Egg

If you are a South Carolina Deferred Compensation Program (SCDCP) participant and have already retired or are a working retiree, you might be thinking about what to do with your savings.

If you are a working retiree who is employed by an SCDCP participating employer, you can still make contributions to your account. If you have retired or are a working retiree whose employer does not participate, you can keep your money in the Program and continue to take advantage of its features and benefits such as:

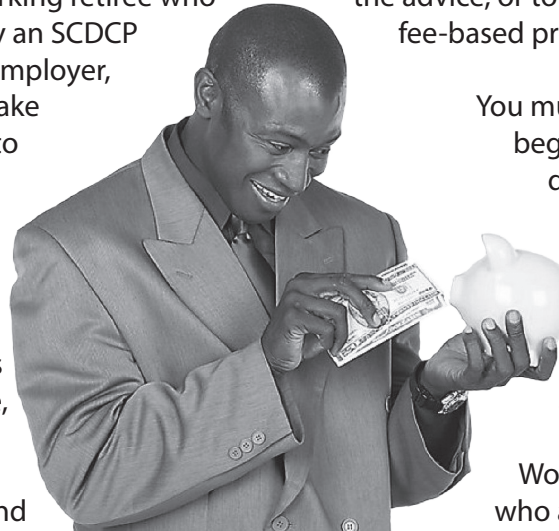
- **The Personal Online Advisor:** a Web-based tool that lets you see how changes to risk, contribution levels or retirement age may affect your financial outlook. Once you receive your advice, you decide if you want to take action. There is no charge or obligation. It is available whenever you need to review or change your savings strategy.
- **The Professional Account Manager:** a full-service, fee-based option designed to

help with your retirement and investment planning. Your advisor provides a complete retirement assessment, and specific recommendations tailored to your goals. The initial consultation is free. You decide whether or not to use the advice, or to enroll in the fee-based program.

You must begin taking distributions by April 1<sup>st</sup> of the year in which you reach age 70½, unless you are working.

Working retirees who are employed by an agency for which the State Comptroller General's Office handles payroll may also participate in the **Roth 401(k) option**. With this option you can make after-tax contributions today and take tax-free withdrawals at retirement. If you are employed by an agency whose payroll is not handled by the State Comptroller General's Office you will need to check with your payroll office to determine if this option is available to you.

For more information, contact ING, the SCDCP's record keeper and administrator, toll free at (866) 826-7283, or visit the Web site at <http://scrs.csplans.com>.



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Please let us know how we're doing by responding to the items below, clipping this survey from the newsletter, and returning to: South Carolina Retirement Systems, Communication and Education Unit, PO Box 11960, Columbia, SC 29211-1960. Thank you!

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Excellent Above Average Average Below Average Poor

2. Please rate the readability of this newsletter.

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Excellent Above Average Average Below Average Poor

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### Comments

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